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TO: Victor M. Mercado, Director
Chief of Utilities

FROM: Irvin Corley, Jr., Fiscal Analysis Director

DATE: May 10, 2006

RE: 2006-2007 Budget Analysis

24.

Attached is our budget analysis regarding your department's budget for the upcoming 2006-2007 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing. We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:cyb

Attachment

cc: Councilmembers
Council Divisions
Auditor General's Office
Roger Short, Interim Chief Financial Officer
Pam Scales, Budget Director
June Ellis, Budget Department Team Leader
Kandia Milton, Mayor's Office

Water Department (41)

FY 2006-2007 Budget Analysis by the Fiscal Division

Summary

The Water Department is an Enterprise Fund Agency and is administratively part of the Detroit Water and Sewerage Department (DWSD) while maintained as a separate fund in the City of Detroit accounting system.

The Mayor's 2006-2007 Proposed Budget includes appropriations and revenues, each totaling \$711.9 million, which represents a \$408.6 million increase over the current fiscal year budget of \$303.3 million. The difference is due primarily to the anticipated bond sale of \$400.0 million. The Department's net tax cost to the City is zero, which is the same as the current fiscal year budget.

2005-2006 Surplus/(Deficit)

The Mayor has projected no surplus or deficit for the Water Department.

Overtime

There is \$7.4 million overtime in the 2005-2006 budget for the Water Department. Through March 31, 2006, the Water Department spent \$3.6 million on overtime. For the 2006-2007 budget, the Mayor has recommended \$7.6 million budgeted overtime.

Personnel and Turnover Savings

The Mayor recommends a net decrease of sixteen positions.

There is no turnover savings expected in 2006-2007.

<u>Appropriation/Program</u>	<u>Budgeted Positions FY 2005-06</u>	<u>Filled Positions 03/31/2006</u>	<u>Mayor's Budget Positions FY 2006-07</u>	<u>Over/(Under) Actual to 05/06 Budget</u>	<u>Mayor's Recommended Turnover</u>
Water (41)					
411010 Office of the Director	9	9	10	0	\$ -
411020 Public Affairs Division	32	26	33	(6)	\$ -
411080 Security	130	124	130	(6)	\$ -
411110 Information Systems Admin. Svcs.	47	48	49	1	\$ -
411200 Contracts & Grants	28	25	28	(3)	\$ -
411220 Commercial Operations	212	176	212	(36)	\$ -
411250 Meter Operations	85	56	85	(29)	\$ -
411280 Systems Operations Control	35	26	35	(9)	\$ -

Appropriation/Program	Budgeted	Filled	Mayor's	Over/(Under)	Mayor's	
	Positions	Positions	Budget	Actual to	Recommended	
	<u>FY 2005-06</u>	<u>03/31/2006</u>	<u>FY 2006-07</u>	<u>05/06 Budget</u>	<u>Turnover</u>	
Water (41)						
411290 Water Technical Services	7	6	7	(1)	\$	-
411300 Operations Services	10	9	10	(1)	\$	-
00085 Administration	595	505	599	(90)	\$	-
412010 Ofc. of the Asst. Dir. Of Fin. Svc. Grp.	2	0	2	(2)	\$	-
412020 Financial Administrative Services	8	9	8	1	\$	-
412080 General Accounting Admin. Svcs.	61	54	61	(7)	\$	-
412220 Purchasing	25	18	25	(7)	\$	-
412230 Material Management	70	60	70	(10)	\$	-
00086 Financial Support Group	166	141	166	(25)	\$	-
414010 Ofc. of Asst. Dir. Asset Maintenance	7	6	7	(1)	\$	-
414130 Mechanical Opns. Administration	280	237	280	(43)	\$	-
414200 Water Board Building	46	27	46	(19)	\$	-
414240 Central Yard	454	334	454	(120)	\$	-
414360 Central Service Facility	1	0	1	(1)	\$	-
00087 Facilities Management	788	604	788	(184)	\$	-
415010 Ofc. of Asst. Dir of Water Opns.	6	3	6	(3)	\$	-
415020 Water Works Park	49	46	49	(3)	\$	-
415030 Springwells Plant	48	40	48	(8)	\$	-
415040 Northeast Plant	30	23	30	(7)	\$	-
415050 Southwest Plant	32	25	31	(7)	\$	-
415060 Lake Huron Plant	27	18	27	(9)	\$	-
415390 Water Quality	15	12	15	(3)	\$	-
00088 Water Operations Group	207	167	206	(40)	\$	-
413010 Ofc. of Asst. Dir. of Eng. Svcs.	3	3	3	0	\$	-
413020 Engineering Administrative Support	157	116	138	(41)	\$	-
05817 Engineering Services-Water	160	119	141	(41)	\$	-
41XXXX Leave of Absence	0	(27)	0	(27)	\$	-
41XXXX Worker's Comp	0	(37)	0	(37)	\$	-
41XXXX Unmatched Positions	<u>0</u>	<u>2</u>	<u>0</u>	<u>2</u>	<u>\$</u>	<u>-</u>
TOTAL	<u>1,916</u>	<u>1,536</u>	<u>1,900</u>	<u>(380)</u>	<u>\$</u>	<u>-</u>

Proposed Layoffs and Vacant Position Reductions

The 2006-2007 proposed budget requires no layoffs in the Water Department. Overall, the Water Department is losing sixteen positions, twenty vacant positions removed with the addition of four positions in Administration.

Significant Funding by Appropriation

<u>Appro.</u>	<u>Program</u>	
00085	Administration	<p>The Mayor's 2006-2007 Proposed Budget includes \$49.6 million for Administration. This is an increase of \$1.2 million from fiscal year 2005-2006.</p> <p>The increase is primarily comprised of increases of \$0.8 million in Meter Operations, \$0.6 million in Systems Operations Control, \$0.5 million in Addressograph, \$0.5 million in General Staff and Departmental Services, \$0.4 million in Software Support, \$0.3 million in both Commercial Operations and Meter Instrumentation Shop. These increases are offset by a \$1.1 million decrease in Information Systems Administrative Services, a \$1.1 million decrease in the Office of the Director, a \$0.4 million decrease in Pumping Station – Ford Road, a \$0.3 million decrease in Operations Services, and a \$0.2 million decrease in Security.</p> <p>A review of the expenditure categories shows increases of \$1.7 million in Salaries and Wages, \$0.3 million in Employee Benefits, and \$1.8 million in Operating Supplies. Decreases include \$2.0 million in Professional and Contractual Services, \$0.1 million in Operating Services, and \$0.4 million in Other Expenses.</p>
00086	Financial Services Group	<p>The Mayor's 2006-2007 Proposed Budget includes \$6.7 million for the Financial Services Group. This is an increase of \$135,493 from fiscal year 2005-2006.</p> <p>The increase is primarily comprised of increases of \$124,061 in Financial Administrative Services and \$100,873 in General Accounting Administrative Services, offset by a decrease of \$133,280 in the Office of Assistant Director of Financial Services, and a decrease of \$8,870 in Purchasing.</p> <p>A review of the expenditure categories shows increases of \$290,304 in Salaries and Wages, and \$3,648 in Operating Supplies. Decreases include \$24,372 in Employee Benefits, \$48,879 in Professional and Contractual Services, \$16,174 in Operating Services, and \$69,034 in Other Expenses.</p>
00087	Asset Maintenance Group	<p>The Mayor's 2006-2007 Proposed Budget includes \$47.4 million for the Asset Maintenance Group. This is an increase of \$19,551 from fiscal year 2005-2006.</p> <p>The increase is mainly due to increases of \$0.5 million in Mechanical Operations Administration and \$0.6</p>

Appro. Program

million in Maintenance and Repair 2004, offset by a decrease of \$1.1 million in the Office of Assistant Director Asset Maintenance Group.

A review of the expenditure categories shows an increase of \$2.3 million in Salaries and Wages. Decreases include \$0.9 million in Employee Benefits, \$24,932 in Professional and Contractual Services, \$0.3 million in Operating Supplies, \$0.1 million in Operating Services, and \$1.0 million in Other Expenses.

05817 Engineering Services – Water

The Mayor's 2006-2007 Proposed Budget includes \$5.2 million in Engineering Services – Water. This is a decrease of \$185,962 from fiscal year 2005-2006.

The decrease is comprised of decreases of \$145,508 in Office of Assistant Director Engineering Services – Water and \$40,454 in Engineering Administrative Support.

A review of the expenditure categories shows decreases of \$145,508 in Salaries and Wages, and \$40,454 in Employee Benefits.

00163 Debt Service and Maintenance

The budget includes \$116.5 million for Debt Service and Maintenance. This is a \$6.7 million increase from fiscal year 2005-2006.

The increase is due to a \$6.7 million increase in Bond Principle and Interest Redemption.

00164 Water System Improvements

The Mayor's 2006-2007 Proposed Budget includes \$32.2 million for Water System Improvements. This is a \$1.4 million increase from fiscal year 2005-2006.

The increase is due to a \$1.4 million increase in Improvement and Extension Water Systems.

00583 Water Extraordinary Repair and Replacement

The budget includes \$196,200 for Water Extraordinary Repair and Replacement. This is a decrease of \$553,100 from fiscal year 2005-2006.

12140 Water Bond Fund Series 2007

The Mayor's 2006-2007 Proposed Budget includes \$400.0 million for the sale of bonds. The sale of the bonds is for upgrades and repairs to the water system.

Significant Revenue Changes by Appropriation and Source

<u>Appro.</u> 04826	<u>Program</u> Revenue – Water Receiving	<p>The Mayor's 2006-2007 Proposed Budget includes revenues of \$301.9 million for Revenue – Water Receiving. This is an increase of \$8.8 million from fiscal year 2005-2006.</p> <p>The increase is mainly from an increase of \$13.1 million from Water Sales – Wholesale related to the rate changes passed by City Council; offset by of \$4.4 million decrease from Water Sales – Retail with the balance from miscellaneous revenue increases and decreases.</p>
00163	Debt Service and Maintenance	<p>The Mayor's 2006-2007 Proposed Budget includes revenue of \$2.0 million for Debt Service and Maintenance. This is a \$0.3 million decrease from fiscal year 2005-2006. The decrease is caused by a reduction in the Earnings on Investments.</p>
00164	Water System Improvements	<p>The Mayor's 2006-2007 Proposed Budget includes revenue of \$0.7 million for Water System Improvements. This is an increase of \$0.4 million from fiscal year 2005-2006.</p> <p>The increase is due to an increase in Earnings on Investments.</p>
00583	Water Extraordinary Repair and Replacement	<p>The Mayor's 2006-2007 Proposed Budget includes \$1.0 million for Water Extraordinary Repair and Replacement. This is an increase of \$8,600 for fiscal year 2005-2006.</p> <p>The increase is from Earnings on Investments.</p>
11487	Water Bond Fund Series 2005	<p>The Mayor's 2006-2007 Proposed Budget includes zero from the Water Bond Fund Series 2005. This is a decrease of \$6.6 million for fiscal year 2005-2006. This decrease is due to no Earnings on Investments expected for fiscal year 2006-2007.</p>
12140	Water Bond Fund Series 2007	<p>The Mayor's 2006-2007 Proposed Budget includes \$406.3 million from the Water Bond Fund Series 2007. The Water Department is anticipating selling \$400.0 million in bonds and receiving \$6.3 million from Earnings on Investment. The sale of bonds is for upgrades and repairs to the water system.</p>

Water (41)

Budgeted Professional and Contractual Services by Activity	FY 2005-06 Budget	FY 2006-07 Recommended	Increase (Decrease)
Administration Services	\$ 13,146,864	\$ 11,127,981	\$ (2,018,883)
Financial Services	2,531,196	2,482,317	(48,879)
Asset Management	10,408,932	10,384,000	(24,932)
Plant Operations-Water	2,737,168	2,790,020	52,852
Engineering Services-Water	52,500	52,500	-
Water-Capital & Debt Service	-	-	-
Total	<u>\$ 28,876,660</u>	<u>\$ 26,836,818</u>	<u>\$ (2,039,842)</u>

Issues and Questions

1. What is the purpose of Appropriation 00583 – Water Extraordinary Repair and Replacement? Is the appropriation associated with any specific project?
2. How many individuals are being affected by layoffs this month? How many demotions are included?
3. How many payroll clerk positions will be lost with the implementation of the new DRMS Payroll module?
4. Why is Retail Water Sale revenue expected to decrease by \$4.4 million?
5. The budget includes a net decrease of 16 positions. Engineering Administrative Support is losing 19 positions. How will the loss of these positions impact the department?
6. Why are salary reductions and employee benefit changes included in Other Expenses and not budgeted in the proper accounts?
7. The department is budgeting \$1.9 million for software maintenance. This expenditure has not been budgeted in the past. Please explain the new expenditure.
8. Miscellaneous Expense is budgeted to increase 970% to \$438.5 million. What additional expenditures are included in this object?

Sewerage Department (42)

FY 2006-2007 Budget Analysis by the Fiscal Division

Summary

The Sewerage Department is an Enterprise Fund Agency that is administratively part of the Detroit Water and Sewerage Department (DWSD). It is maintained as a separate fund in the City of Detroit's accounting system.

The Mayor's 2006-2007 Proposed Budget includes appropriations and revenues, each totaling \$766.7 million, which represents an increase of \$373.8 million over the fiscal year budget of \$392.9 million. The difference is due primarily to the anticipated bond sale of \$375.0 million. The Department's net tax cost to the City is zero, which is the same as the current fiscal year budget.

2005-2006 Surplus/(Deficit)

The Mayor has projected no surplus or deficit for the Sewerage Department.

Overtime

There is \$6.9 million in overtime in the 2005-2006 budget for the Sewerage Department. Through March 31, 2006, the Sewerage Department spent \$4.3 million on overtime. For the 2006-2007 budget, the Mayor has recommended \$6.7 million budgeted overtime.

Personnel and Turnover Savings

The Mayor recommends a net decrease of thirteen positions.

There is no turnover savings expected in 2006-2007.

<u>Appropriation/Program</u>	<u>Budgeted Positions FY 2005-06</u>	<u>Filled Positions 03/31/2006</u>	<u>Mayor's Budget Positions FY 2006-07</u>	<u>Over/(Under) Actual to 05/06 Budget</u>	<u>Mayor's Recommended Turnover</u>
Sewerage (42)					
421030 Document Management	6	4	6	(2)	\$ -
421070 Safety	3	0	3	(3)	\$ -
421090 Ofc. Of Program Management Asst.	17	13	18	(4)	\$ -
421100 Print Shop	3	2	3	(1)	\$ -
00089 Administration	29	19	30	(10)	\$ -
425010 Ofc. of Asst. Dir. of Wastewtr. Opns.	6	3	6	(3)	\$ -
425020 Plant Administration	907	720	904	(187)	\$ -
425140 I.W.C. Field Monitoring	112	84	112	(28)	\$ -
00162 Wastewater Plant Operations	1,025	807	1,022	(218)	\$ -
05831 Engineering Services-Sewage	135	105	124	(30)	\$ -
			<u>Mayor's</u>		
	<u>Budgeted</u>	<u>Filled</u>	<u>Budget</u>	<u>Over/(Under)</u>	<u>Mayor's</u>

<u>Appropriation/Program</u>	<u>Positions FY 2005-06</u>	<u>Positions 03/31/2006</u>	<u>Positions FY 2006-07</u>	<u>Actual to 05/06 Budget</u>	<u>Recommended Turnover</u>
42XXXX Leave of Absence	0	(7)	0	(7)	\$ -
42XXXX Worker's Comp.	0	(6)	0	(6)	\$ -
42XXXX Unmatched Positions	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>\$ -</u>
TOTAL	<u>1,189</u>	<u>931</u>	<u>1,176</u>	<u>(258)</u>	<u>\$ -</u>

Proposed Layoffs and Vacant Position Reductions

The 2006-2007 proposed budget requires no layoffs in the Sewerage Department. Overall, the Sewerage Department is losing thirteen positions, fourteen vacant positions removed, and one position reinstated.

Significant Funding by Appropriation

Appro. Program
00089 Administration

The Mayor's 2006-2007 Proposed Budget includes \$37.1 million for Administration. This is a decrease of \$0.9 million from fiscal year 2005-2006.

The decrease is comprised of decreases of \$1.2 million in Office of the Director, \$1.0 million in Information Systems Administrative Services, \$0.3 million in the Meter Instrumentation Shop, \$0.1 in Security, and a decrease of \$0.9 million in Meter Operations. The increases include \$0.2 million in General Staff Services, 0.2 million in Network Support, \$0.2 million in System Operations Control, \$0.6 million in Commercial Operations, \$0.5 million in Addressograph, and \$0.4 million in Software Support

A review of the expenditure categories show increases of \$0.4 million in Salaries and Wages, \$0.1 million in Employee Benefits, \$0.3 million in Professional and Contractual Services, and \$0.1 million in Operating Supplies. Decreases were noted in Operating Services of \$0.5 million, and Other Expenses of \$1.4 million.

00090 Financial
Services Group

The Mayor's 2006-2007 Proposed Budget includes \$5.8 million for the Financial Services Group. This is an increase of \$137,574 from fiscal year 2005-2006.

The increase is comprised primarily of increases of \$163,485 in Financial Administrative Services, \$167,911 in General Accounting Administrative Services, \$67,486 in Materials Management, and decreases of \$266,357 in the Office of the Assistant Director Financial Services, and \$4,982 in Wastewater Plant Stores.

A review of the expenditure categories shows increases of \$267,356 in Salaries and Wages, \$144,438 in Employee Benefits, and \$290 in Capital Outlays. Decreases include

<u>Appro.</u>	<u>Program</u>	\$6,051 in Operating Supplies, \$100 in Operating Services and \$268,359 in Other Expenses.
00161	Asset Maintenance Group	<p>The Mayor's 2006-2007 Proposed Budget includes \$16.4 million for the Asset Maintenance Group. This is a decrease of \$23,240 from fiscal year 2005-2006.</p> <p>The decrease is mainly comprised of a decrease of \$667,051 in the Office of the Assistant Director of Asset Maintenance Group, and a decrease of \$35,995 in Mechanical Maintenance. The decreases are offset by an increase of \$318,121 in Mechanical Operations Administration, an increase of \$295,255 in Maintenance and Repair 2004.</p> <p>A review of the expenditure categories shows increases of \$692,677 in Salaries and Wages, \$20,160 in Employee Benefits, \$149,000 in Professional and Contractual Services, and \$7,158 in Operating Services. Decreases include \$156,158 in Operating Supplies, and \$736,077 in Other Expenses.</p>
05831	Engineering Services – Sewerage	<p>The Mayor's 2006-2007 Proposed Budget includes \$3.5 million for Engineering Services – Sewerage. This is a decrease of \$389,751 from fiscal year 2005-2006.</p> <p>The decrease is comprised of decrease of \$923,649 in the Office of the Assistant Director Engineering Services – Sewerage offset by an increase of \$533,898 in Engineering Administrative Services.</p> <p>A review of the expenditure categories shows increases of \$553,498 in Employee Benefits, and \$25,000 in Operating Services. Decreases include \$28,348 in Salaries and Wages, and \$939,901 in Other Expenses.</p>
00162	Wastewater Plant Operations	<p>The fiscal year 2006-2007 budget includes \$126.1 million for Wastewater Plant Operations. This is an increase of \$2.3 million from fiscal year 2005-2006.</p> <p>The increase consists primarily of increases of \$8.0 million in Plant Administration, \$1.5 million in Treatment Operations, \$1.0 in I.W.C. Program Operations, \$0.6 million in Treatment Plant Maintenance. These increases are offset by a decrease of \$9.5 million in the Office of the Assistant Director of Wastewater Plant Operations.</p> <p>A review of the expenditure categories shows increases of \$4.0 million in Salaries and Wages, \$4.1 million in Employee Benefits, \$2.0 million in Professional and Contractual Services, and \$1.7 million in Operating Services. The Other Expenses decreases by \$9.5 million.</p>
00168	Interest and Bond	The fiscal year 2006-2007 budget includes \$156.4 million in

<u>Appro.</u>	<u>Program</u>	
	Redemption	Interest and Bond Redemption. This is an increase of \$6.2 million from the fiscal year 2005-2006. The increase is due to an increase of Bond Principle and Interest Redemption.
00169	Sewerage System Improvements	The Mayor's 2006-2007 Proposed Budget includes \$45.2 million in Sewerage System Improvements. This is a decrease of \$605,200 from fiscal year 2005-2006.
00443	Extraordinary Repairs and Replacement	The Mayor's 2006-2007 Proposed Budget includes \$146,000 in Extraordinary Repairs and Replacement. The appropriation is a new appropriation based on the department's experience of dealing with unexpected repairs.
11488	Sewerage Bond Fund Series 2005	The 2006-2007 budget includes zero for the Sewerage Bond Fund Series 2005. This is a decrease of \$8.1 million from the current fiscal year. The bonds were sold in March 2006.
12139	Sewerage Bond Fund Series 2007	The Mayor's 2006-2007 Proposed Budget includes \$375.0 million in Sewerage Bond Fund Series 2007. The appropriation is for the anticipated sale of bonds for the upgrade and repairs of the sewage system.

Significant Revenue Changes by Appropriation and Source

<u>Appro.</u>	<u>Program</u>	
00838	State Revenue Sharing – State Revolving Fund	<p>The Mayor's 2006-2007 Proposed Budget includes revenues of \$6.6 million for State Revenue Sharing – State Revolving Fund. This is a decrease of \$10.5 million from the fiscal year 2005-2006 budget.</p> <p>The decrease is mainly due to the reduction in Project Borrowings of \$8.0 million and a decrease of \$2.5 million in Earnings on Investments.</p>
04828	Revenue – Sewerage Receiving	The Mayor's 2006-2007 Proposed Budget includes revenue of \$378.2 million in Revenue – Sewerage Receiving. This is an increase \$10.0 million from the fiscal year 2005-2006 budget. The increase is mainly due to Council approved rate increases of \$8.8 million in Sewage Treatment – Wholesale, \$0.2 million in Pollutant Surcharges, \$0.9 million in Sewage Treatment – Sales.
04829	Revenue – Sewerage Operation – Maintenance	The fiscal year 2006-2007 budget includes \$755,200 in Revenue – Sewerage Receiving. This is a decrease of \$234,800 from the current fiscal year. The decrease is due to a reduction in Earnings on Investments.
00168	Interest and Bond Redemption	The Mayor's 2006-2007 Proposed Budget includes revenue of \$4.1 million in Interest and Bond Redemption. This is a decrease of \$0.4 million from the current budget. The decrease is due to a reduction of Earnings on Investments.

<u>Appro.</u> 11488	<u>Program</u> Sewerage Bond Fund Series 2005	The 2006-2007 budget includes zero for the Sewerage Bond Fund Series 2005. This is a decrease of \$8.1 million from the current fiscal year. The bonds were sold in March 2006.
12139	Sewerage Bond Fund Series 2007	The Mayor's 2006-2007 Proposed Budget includes \$375.0 million in Sewerage Bond Fund Series 2007. The appropriation is for the anticipated sale of bonds for the upgrade and repairs of the sewage system.

Sewerage (42)

Budgeted Professional and <u>Contractual Services by Activity</u>	FY 2005-06 <u>Budget</u>	FY 2006-07 <u>Recommended</u>	Increase <u>(Decrease)</u>
Administrative Services	\$ 3,762,000	\$ 4,090,000	\$ 328,000
Financial Services	-	-	-
Asset Management	2,215,000	2,364,000	\$ 149,000
Engineering Services-Sewage	52,500	52,500	-
Sewer Operations	9,196,581	11,184,965	\$ 1,988,384
Sewerage-Capital & Debt Service	-	-	-
Total	<u>\$ 15,226,081</u>	<u>\$ 17,691,465</u>	<u>\$ 2,465,384</u>

Issues and Questions

9. When is the anticipated sale of the Sewerage bonds?
10. For the State Revenue Sharing – State Revolving Fund, why are there no Project Borrowings anticipated for fiscal year 2006-2007?
11. Why are the Earnings of Investments for the bonds projected to have lower earnings in fiscal year 2006-2007?
12. Is there a plan to outsource repair work that can be done by Department employees?
13. What expenditures are included in Miscellaneous Expenditures? This account is expected to increase by 591% to \$413,862,524.
14. Why are salary reductions and employee benefit changes included in Other Expenses and not budgeted in the proper accounts?
15. Contract Services are budgeted to increase by \$2.5 million. What is the reason for this increase?